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KINGSTON KINSHASA LAGOS LONDON LUSAKA LUXEMBOURG NAIROBI PARIS
ROME YAOUNDE GENEVA OECD PARIS 03 APR 73 FROM EC BRUSSELS RPT
TO YOU QUOTE

PASS STR AND AGRICULTURE

E. O. 11652 N/ A

TAGS: ETRD, XA, EEC

SUB: INITIAL EC COMMISSION REPORT TO THE COUNCIL IN

PREPARATION FOR THE NEGOTIATION OF YAOUNDE III:

THE FREE TRADE AREA AND REVERSE PREFERENCES ISSUE

REF: (A) EC BRUSSELS 1239

(B) EC BRUSSELS 1601

1. SUMMARY: THE MISSION HAS OBTAINED, ON A CONFIDENTIAL
BASIS, (US POSSESSION SHOULD NOT BE REVEALED) A COPY OF
THE INITIAL REPORT PREPARED BY THE COMMISSION STAFF IN
ANTICIPATION OF NEGOTIATIONS WITH THE AFRICAN
ASSOCIATES AND COMMONWEALTH ASSOCIABLE COUNTRIES. KEY
ELEMENTS OF THIS REPORT WERE SUMMARIZED IN REF A. THE
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REPORT WILL BE SUBMITTED TO THE COMMISSIONERS FOR APPROVAL ON APRIL 4. IF APPROVED AT THAT TIME, IT WILL SUBSEQUENTLY BE FORWARDED TO THE EC COUNCIL, PROBABLY BEFORE EASTER. THE REPORT IS DIVIDED INTO SEVERAL PARTS COVERING TRADE, FINANCIAL AND TECHNICAL CO-OPERATION, COOPERATION IN OTHER FIELDS AND INSTITUTIONS. THIS MESSAGE, AND A SEPARATE CABLE RELATED TO SPECIAL COMMODITY ARRANGMENTS SUMMARIZE KEY ASPECTS OF THE LENGTHY PORTION OF THE COMMISSION PAPER DEVOTED TO TRADE. AS REPORTED BELOW THE COMMISSION HAS AGAIN ATTEMPTED TO JUSTIFY THE FREE TRADE AREA APPROACH TO ARRANGMENTS BETWEEN THE COMMUNITY AND ELIGIBLE AFRICAN COUNTRIES. INEVITABLY THIS INVOLVES A DISCUSSION OF THE REVERSE PREFERENCES ISSUE. IN BOTH CASES THE COMMISSION LINE CLOSELY PARALLELS THAT TAKEN BY COMMISSIONER DENIAU DURING THE RECENT US- EC CONSULTATIONS (REFTEL B). THE FRENCH LANGUAGE TEXT OF THE FULL REPORT IS BEING POUCHED TO THE DEPARTMENT. END SUMMARY.

2. IN ITS INITIAL PAPER DESCRIBING THE FORTHCOMING NEGOTIATIONS WITH THE PRESENT AFRICAN ASSOCIATES AND COMMONWEALTH ASSOCIABLES THE COMMISSION HAS AGAIN CONFIRMED ITS ATTACHMENT TO THE FREE TRADE AREA APPROACH TO RELATIONS BETWEEN THE COMMUNITY AND THESE COUTRIES. THIS APPROACH IS JUSTIFIED ON SEVERAL GROUNDS:

(1) FROM A POLITICAL POINT OF VIEW IT IS SEEN AS SAFEGUARDING THE CONTRACTUAL NATURE OF THE ASSOCIATION. THE COMMISSION CLAIMS THAT OTHER SOLUTIONS WOULD ACCENTUATE THE UNILATERAL AND PRECARIOUS CHARACTER OF TRADE RELATIONS BETWEEN THE COMMUNITY AND ITS ASSOCIATES, WHEREAS THE PRESENT FREE TRADE ARRANGEMENTS DESPITE THE ECONOMIC INEQUALITY OF THE PARTNERS IS BASED ON A SYSTEM OF MUTUAL PARITY AND SOLIDARITY. THESE CHARACTERISTICS DISTINGUISH EC ASSOCIATION POLICY FROM OTHER ASPECTS OF ITS POLICY TOWARD LDCS SUCH AS GPS WHICH IS BASED ON THE AUTONOMOUS DECISION OF THE COMMUNITY.

(2) THE COMMUNITY HAS BEEN, AND REMAINS, THE PRINCIPAL EXPORT OUTLET AND IMPORT SOURCE FOR THE LIMITED OFFICIAL USE

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COUNTRIES, WHICH ALREADY HAVE, OR HAVE BEEN OFFERED,

ASSOCIATE STATUS.

(3) FOR THE LONGER TERM THE INDUSTRIAL DEVELOPMENT OF THE ASSOCIATED STATES CAN BE FACILITATED BY THE CONDITIONS OF THE PRESENT AGREEMENT. THE REPORT NOTES THAT ALTHOUGH THE COUNTRIES INVOLVED ARE NOT YET EXPORTERS OF FINISHED AND SEMI- FINISHED PRODUCTS, IN THE FUTURE THEY CAN BE EXPECTED TO GRADUALLY INCREASE PRODUCTION FOR EXPORT. WITH THIS PERSPECTIVE IN MIND IT IS IMPORTANT THAT INDUSTRIAL ENTERPRISES IN THE ASSOCIATED STATES BE ASSURED THAT THE TRADE REGIME THAT WILL BE APPLIED TO THEIR EXPORTS TO THE COMMUNITY REMAIN AS LIBERAL AS POSSIBLE. THE FREE TRADE AREA PROVIDES IN THIS REGARD A BETTER SOLUTION THAN DOES GENERALIZED PREFERENCES WHICH TENDS TO FAVOR THE MORE DEVELOPED OF THE DEVELOPING COUNTRIES AND DOES NOT COVER MANY OF THE PRODUCTS OF INTEREST TO THE ASSOCIATED AND ASSOCIABLE COUNTRIES.

(4) FINALLY, THE COMMISSION SUGGESTS THAT FOR LEGAL REASONS, RELATED TO THE COMMUNITY' S GATT OBLIGATIONS ONLY ARTICLES XXIV AND XXV PROVIDE FOR EXCEPTIONS TO THE MFN PRINCIPLE. THE REPORT STATES THAT ARTICLE XXIV OFFERS EVIDENT ADVANTAGES OVER ARTICLE XXV. THESE ADVANTAGES INCLUDE AVOIDING THE NEED FOR AN ANNUAL REVIEW REQUIRED BY A WAIVER AND ALLOWING THE PARTIES INVOLVED IN A FREE TRADE AREA TO GRADUALLY ELIMINATE INTERNAL BARRIERS TO TRADE WHILE SAFEGUARDING THEIR FREEDOM OF ACTION TOWARD THIRD COUNTRIES.

EM WITH REGARD TO THE QUESTION OF REVERSE PREFERENCES, THE COMMISSION PAPER ACKNOWLEDGES THAT DIFFERENCES OF OPINION HAVE ARISEN REGARDING THE TREATMENT WHICH EXPORTS FROM THE COMMUNITY SHOULD RECEIVE IN ASSOCIATED COUNTRIES. THE COMMISSION SETS OUT TO CLARIFY ITS POSITION BY NOTING THE NEED, ON THE ONE HAND, TO RESPECT THE PRINCIPLE OF FREE TRADE AND, ON THE OTHER, TO RECONCILE THE DIFFERENCES OF OPINION THAT APPEAR TO EXIST AMONG THOSE COUNTRIES ELIGIBLE FOR ASSOCIATION, PARTICULARLY ON THE REVERSE PREFERENCES ISSUE.

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4. THE COMMISSION POSITION IS SPELLED OUT IN FOUR POINTS:

(1) FOR REASONS RELATED ESSENTIALLY TO THE COMPATIBILITY OF THE

COMMUNITY SYSTEM WITH THE RULES OF GATT, AND ALSO TO PROVIDE A LONGER TERM OF CONTINUITY OF ADVANTAGES ACCORDED TO THE ASSOCIABLE COUNTRIES, THE COMMUNITY INTENDS TO MAINTAIN A REGIME BASED ON THE FREE TRADE AREA APPROACH.

(2) THE COMMUNITY DOES NOT SEEK FROM ITS PARTNERS A PREFERENTIAL REGIME. IT SEEKS, RATHER, THE APPLICATION OF A TARIFF FREE REGIME BASED ON THE ESTABLISHMENT OF A FREE TRADE AREA. SUCH A REGIME, HOWEVER, DEPENDING ON THE DEVELOPMENT NEEDS OF THE ASSOCIATED COUNTRIES INVOLVED, COULD INCLUDE SUBSTANTIAL DEROGATIONS FROM FREE TRADE ALONG THE LINES OF THOSE FORESEEN IN PROTOCOL 2 OF THE PRESENT YAOUND CONVENTION.

(3) THE AUTONOMY OF THE PARTIES TOWARD THIRD COUNTRIES IMPLIED BY A FREE TRADE AREA PERMITS THE ASSOCIATED COUNTRIES WHICH SO DESIRE, TO EXTEND TO SUCH THIRD COUNTRIES-- EITHER UNILATERALLY OR BY MEANS OF NEGOTIATION-- THE SAME FREE TRADE ARRANGEMENT GIVEN TO THE COMMUNITY. (IN THIS CASE THE COMMISSION SUGGESTS THAT THE PROBLEM OF BUDGETARY RECEIPTS BE SOLVED BY THE TECHNIQUE OF A DOUBLE COLUMN TARIFF). GIVEN THE RIGHT OF THE ASSOCIATED STATES TO EXTEND SIMILAR FREE TRADE ARRANGEMENTS TO THIRD COUNTRIES THE COMMUNITY SEES ITSELF AS NO LONGER THE RECIPIENT OF A PREFERENTIAL TRADE ARRANGEMENT. THE DECISION TO MOVE IN THIS DIRECTION WOULD DEPEND CLEARLY ON THE FREE CHOICE OF EACH ASSOCIATED COUNTRY.

(4) THE COMMISSION PAPER STATES THAT " AS IN THE PAST" THE COMMUNITY WILL NOT LINK THE BENEFITS OF FINANCIAL AND TECHNICAL COOPERATION TO THE EXISTENCE OF PREFERENCES WHICH BENEFIT THE MEMBER STATES. THE QUESTION OF ACCESS TO COMMUNITY MARKETS IN THIS CONTEXT IS NOT ADDRESSED.

4. THE COMMISSION CLOSES THIS SECTION OF ITS REPORT BY STATING THAT ONLY THE POSITION SPELLED OUT ABOVE WILL ALLOW LIMITED OFFICIAL USE

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FOR THE RECONCILIATION WITHIN A SINGLE ASSOCIATION OF A FREE TRADE REGIME WITH THE PARTICIPATION OF MANY COUNTRIES TAKING DIVERGENT POSITIONS WITH REGARD TO THE PROBLEM OF REVERSE PREFERENCES. FROM THAT POINT OF DEPARTURE IT WILL BE NECESSARY TO EXAMINE WITH THE INDIVIDUAL COUNTRIES ELIGIBLE FOR ASSOCIATION HOW BEST TO ACHIEVE A FREE TRADE ARRANGEMENT-- A PROBLEM CONSIDERED BY THE COMMISSION TO BE PRINCIPALLY TECHNICAL.

5. LOOKING FORWARD TO THE NEGOTIATIONS WHICH WILL
BEGIN THIS SUMMER, THE COMMISSION HAS ALSO SUGGESTED THAT
THE COMMUNITY CONSIDER THE POSSIBILITY THAT OTHER
AFRICAN COUNTRIES IN ADDITION TO THE PRESENT ASSOCIATES
AND THE COMMONWEALTH ASSOCIABLES, BUT WITH SIMILAR
DEVELOPMENT LEVELS AND PROBLEMS, MAY ALSO WISH
TO PARTICIPATE IN THE NEGOTIATIONS WITH THE COMMUNITY.
THE COUNTRIES IN QUESTION ARE NOT NAMED BUT WE HAVE REPORTS
THAT THEY INCLUDE THE SUDAN, ETHIOPIA AND LIBERIA.
GREENWALD

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